CHAPTER 5

ACCOUNTING FOR OBLIGATIONS

1. INTRODUCTION.

a. **Purpose.** This chapter prescribes general requirements applicable to incurring, recording, and reporting obligations.

b. **Applicability.** This chapter applies to all Departmental elements. It does not apply to contractors, except in the discussion of transfers in paragraph k below.

c. **Policy.** In accordance with applicable statutory requirements, the Departmental policy for obligations is as follows:

(1) Incur obligations only for the purpose for which the appropriation is intended and within the time limits applicable to the appropriation.

(2) Obligate time-limited appropriations only to meet bona fide needs arising in the fiscal year(s) for which the appropriation is available, unless specified otherwise by law.

(3) Exercise adequate controls to ensure that obligations do not exceed the amount appropriated by statute and are not incurred before the appropriation becomes law, unless otherwise provided by law.

(4) Promptly record each obligation after the event, but in no case later than the end of the month in which the obligation event occurs. Record an amount as an obligation only when supported by documentary evidence as prescribed by 31 U.S.C. 1501(a) and General Accounting Office (GAO) title 7, chapter 3.

(5) Record all valid obligations even when authority for the obligation has been exceeded with regard to dollar limitations, purpose, or time constraints.

(6) Review, at least annually, all unpaid obligations and deobligate all unsubstantiated obligations and excess funds.

(7) Record, report, and identify the recovery of funds obligated in prior years, unless otherwise excluded. These funds may be deobligated at any time, but they shall not be available for reuse until they have been formally allotted.

(8) Maintain documentary evidence in support of all obligations.

2. COMMITMENT AND CERTIFICATION OF FUND AVAILABILITY. In accordance with Chapter 2, “Administrative Control of Funds,” funds shall be reserved before incurring obligations. A commitment (synonymous with “reservation”) of funds is a budgetary and accounting action taken to reserve funds to ensure that funds are available before contractual documents are awarded. In addition, commitments are recorded for anticipated expenditures such as payroll and contingent liabilities. Commitments are valid only during the fiscal year in which they are executed. If funds are not obligated by the end of the fiscal year, a new commitment of funds must be made in the new fiscal year.

3. **RECORDING OBLIGATIONS.** In accordance with the policy set forth in paragraph 1 above, program budget and accounting officials must ensure all obligations are recorded in a timely and accurate manner and against the applicable legislative guidance (budget and reporting classification) and appropriation. Their responsibility herein includes preventing the overrecording and underrecording of obligations and meeting the standards for proper recording in GAO title 7, chapter 3. Because the Department has an immense variety of transactions (examples are presented in paragraph 4 of this chapter), the decision and action to record an obligation must be evaluated carefully and conducted on a case-by-case basis, with an emphasis on recording only legitimate obligations. Concurrently, budget and accounting officials must comply with the bona fide need rule (current-year needs) for goods and services that are received in the current and following year(s) and aligned with fixed-period appropriations. Examples and detailed discussion on the bona fide need rule and obligation of appropriations are presented in GAO Principles of Federal Appropriations Law, chapters 3 and 7, respectively.

4. **TYPES OF OBLIGATIONS.**

a. **Contracts.**

(1) **Integrated Contracts.** Record an obligation based on an integrated contract or contract modification that normally is supported by a locally issued financial plan providing for operational requirements of the current year. It is essential that each contractor's cost and outstanding encumbrance levels be followed closely to ensure that the program being carried out does not exceed funds obligated on DOE records. Financial plans issued to contractors shall be consistent with amounts obligated by DOE, including appropriate adjustments and limitations in the event of a continuing resolution.

(2) **Firm Fixed Price Contracts.** Record obligations for the total amount stated in a firm fixed price contract when the contract is executed. An exception to this policy is made if the contract contains a limitation of Government obligation clause and the project has been approved through the budget process for incremental funding. In such a case, the contract may be funded incrementally; that is, obligations may be recorded to cover termination costs and current-year requirements only. When the termination costs decline as the project approaches completion, the obligations should be reduced accordingly.

(3) **Fixed Price Contracts with Escalation, Price Redetermination, or Incentive Provisions.** When a fixed price contract is executed, record an obligation in the amount of the price stated in the contract, or in the amount of the billing price if the contract includes an incentive clause. The initial obligation shall include an amount to cover the expected payments to be made under the variable conditions of the contract, such as engineering services, prepaid transportation, and container deposits. The recorded obligation shall be adjusted to cover price revisions at the time the revisions are determined in accordance with the contract.

(4) **Cost Reimbursement Contracts and Time and Material Contracts** include cost plus fixed fee, cost, cost sharing, cost plus incentive fee, cost plus award fee, time and material, and labor hour contracts. When a contract is executed, record an obligation in an amount not in excess of the total estimated costs, including the fixed fee in the case of a cost plus fixed fee contract and the target

fee in the case of a cost plus incentive fee contract. Adjustments to the initial recorded obligation shall be made only when they are supported by properly executed modifications to the contract.

(5) **Indefinite-Delivery-Type Contracts.**

(a) **Open-End or Indefinite Quantity Contracts** include call contracts, options contracts, as-desired or wish, want, or will contracts, basic agreements and basic ordering agreements, blanket purchasing agreements for small purchase orders, credit cards, and indefinite delivery contracts. These contracts are collectively termed “open-end” because they place no obligation on the Government, regardless of its requirements, to place orders beyond any stated minimum quantity. Funds for the stated minimum quantity are obligated upon execution of the contract. Funds for any quantity in excess of the stated minimum are obligated upon issuance of the order.

(b) **Definite Quantity Contracts** provide for deliveries of definite quantities of specific goods or services for fixed periods, with deliveries scheduled at designated locations. DOE is obligated to purchase the quantity of supplies or services designated in the schedule of a definite quantity contract. Depending on the situation, a definite quantity contract may provide for a fixed unit or a fixed price. The entire contract amount is recorded as an obligation against the appropriation available at the time of contract award.

(c) **Requirements Contracts** provide for filling all actual purchase requirements for specific goods or services during specified contract periods. Deliveries under the contract are scheduled by placing orders with the contractor. The amount of each order is recorded as an obligation when issued.

(d) **Task Order Contracts** are usually service-related contracts awarded for specific performance periods. When services are required, a task order is issued to the contractor. The task order provides the scope of work, the deliverable, and the expected cost, and is recorded as an obligation when issued.

(6) **Contracts Under Specific Statutory Authority.** The DOE obligation for a contract under specific statutory authority (such as the acquisition of source material or utility services) shall be recorded at the beginning of each month or quarter for the estimated deliveries during that period. At the end of each fiscal year, the unpaid obligation under the contract shall be adjusted to the actual or estimated amount determined at that time to be due for deliveries actually received through the end of the fiscal year. When these contracts require special facilities to be constructed, the cost of such facilities shall be obligated only when the contract is canceled. In such an event, DOE will obligate only its predetermined portion of the unamortized cost of such facilities.

(7) Other Contracts.

(a) Contracts Authorizing Variations in Quantities. An obligation shall be recorded when a contract is executed and only in the amount and for the quantity specified for delivery, exclusive of permitted variations. Increase or decrease the amount recorded to cover the amount for the quantity actually delivered and accepted.

(b) Combination Contracts. Combination contracts are contracts or agreements that contain more than one type of obligation. The total amount to be recorded as an obligation upon execution of such a contract should be the sum of amounts arrived at as appropriate for each of the various types.

(c) Contracts Covering Lands and Structures. Contracts covering lands and structures involve procurement of land and interest in land, buildings and other structures, additions to buildings, nonstructural improvements, and fixed equipment. Obligations shall be established upon execution of the contracts for the total amounts involved, in the absence of incremental funding as described in paragraph 4a(2).

(d) Lease Purchases and Capital Leases. Lease purchases and capital leases, excluding telecommunication systems, must be fully obligated at the inception of the lease agreement, consistent with OMB Circular A-11, Budget Preparation. The acquisition of telecommunication systems is considered as a purchase of public utility services and is not subject to OMB lease funding requirements. Operating leases also must be fully obligated at inception unless the lease includes a cancellation clause. In that case, the maximum liability is the amount of the lease payments over the minimum lease period plus any required cancellation payment.

(e) Letter Contracts and Amendments Thereto. A letter contract, or any amendment thereto, must be sufficiently specific and definitive to show the purpose and scope of the contract finally to be executed and, when accepted in writing by the contractor, shall constitute documentary evidence to support the recording of an obligation at the time the document is executed. The obligation shall be recorded in the amount stated as the maximum under the letter or amendment. The maximum shall be the amount necessary to cover costs and commitments to be incurred by the contractor before the execution of a definitive contract. Increase or decrease the obligation so recorded to the amount provided for in the definitive contract when it is executed. If the letter merely indicates the Government’s intention to enter into a contractual relationship at a later date, treat the amount involved as a reservation rather than an obligation.

(f) Condemnation Proceedings. For condemnation proceedings, obligate the estimated price of the land at the time the Attorney General is requested to start the proceedings, adjusted to the amount of the payment to be held in escrow when there is a declaration of the taking.

(g) **Multiyear Service Contracts.** Multiyear service contracts such as grounds maintenance and purchase contracts for expendable commodities should be obligated as if they were operating leases.

b. **Grants.** Grant obligations are incurred at the time an authorized contracting officer signs the Notice of Financial Assistance Award. The grantee accepting the award need not sign the Notice of Financial Assistance Award for the obligation to be incurred and recorded. Once funds have been obligated for a grant, a modification or an amended Notice of Financial Assistance Award signed by an authorized contracting officer is required to deobligate funds. This applies to a newly awarded grant not accepted by the grantee, to a reduction in an amount previously awarded, and to a closeout adjustment to the balance of a DOE obligation.

c. **Purchase Orders.** Record obligations in the amounts stated in the purchase orders for materials or services at the time the purchase orders are issued.

d. **Payroll.**

(1) **Employee Salaries.** Obligate the actual amounts earned by and paid to employees during the pay period from computations based on payrolls at the close of each pay period. Additionally, accrue and obligate each month the estimated amounts due but not paid to employees, and adjust or reverse this obligation in the following month.

(2) **Other Charges Based on Salaries.** Living and quarters allowances; equalization allowances under 5 U.S.C. 3373; and employers' shares of contributions to retirement funds, insurance premiums, and Federal Insurance Contributions Act and medicare taxes are obligated at the time employee salaries are earned and obligated as stated in paragraph 4d(1). Obligate other allowances such as uniform allowances and incentive awards when they become payable to the employees. Severance pay is obligated for the pay period covered, on a pay-period-by-pay-period basis. Obligate annual leave for DOE employees when it becomes due and payable as terminal leave or when otherwise specifically authorized by law, rather than at the time the leave is earned. Sick leave is obligated, costed, and paid when used.

e. **Travel.** Record an initial obligation for temporary duty (TDY) travel based on approved travel orders. The amount represents an estimate of all costs associated with the trip, including any registration fees. Record an adjustment to the obligation based on the costs itemized on the traveler's settlement voucher. For TDY travel that spans fiscal years, the estimated costs of the trip must be obligated in the fiscal year that they are incurred by the traveler, except for transportation costs from and to traveler's duty station and any registration fees, which may be fully obligated in the fiscal year the trip begins. For permanent-change-of-station travel, record an obligation representing the estimated travel costs in the fiscal year the travel orders are issued. Usually, local travel costs are obligated based on receipt and approval of the traveler's claim voucher.

f. **Transportation of Other Goods.** Government bills of lading, other commercial contracts, and intragovernmental orders for specific transportation services are recorded as obligations when issued. Obligations for transportation that has not been commenced at yearend must be deobligated and obligated in the next fiscal year if still valid. In the case of expenses for shipment of household goods and for other change-of-station expenses, record an obligation against current-year funds when the employee is issued travel orders. The obligation shall remain recorded until it is liquidated by payment or there is a modification or cancellation of the travel orders.

g. **Communications and Public Utilities.** Normally, the estimated or actual amounts for metered services received in that month are obligated at the close of each month.

h. **Agreements with Other Federal Agencies.** The Economy Act of 1932 (31 U.S.C. 1535) is an example of an authority that allows DOE to enter into agreements to either acquire or provide goods or services with other Federal agencies. Chapter 13, “Reimbursable Work, Revenues, and Other Collections,” provides the policies for funds-in agreements.

(1) **DOE as Ordering Agency (Funds Out).** An agreement made by DOE with another Federal agency for the furnishing of materials or services that are chargeable to DOE’s appropriations shall be recorded as a valid obligation for the full amount stipulated in the agreement as of the date of acceptance. However, for agreements issued under the authority of the Economy Act, the amounts obligated under appropriations other than no-year appropriations must be deobligated by DOE to the extent that they have not been obligated by the performing agency. When the agreement is executed by a transfer appropriation (Standard Form (SF) 1151, “Nonexpenditure Transfer Authorization”), the obligation is recorded based on the obligation reported by the performing agency on its SF-133, “Report on Budget Execution.”

(2) **DOE as Performing Agency (Funds In).** Funds provided under reimbursable agreements are to be used solely for the intended purposes and in accordance with the legal and other limitations imposed on the use of funds as specified in the agreements. Failure to adhere to these limitations constitutes an unauthorized use of funds and a potential violation of 31 U.S.C. 1301.

i. **Interagency Orders Required by Law.** In some instances, the law requires that orders for supplies or services be placed with certain Federal agencies operating under self-sustaining, revolving, or working-capital funds established by law. Record an obligation when the order is issued to the other agency, even though the work may be completed or supplies may be delivered during the ensuing fiscal year. Review such orders annually.

j. **Claims.**

(1) **Tort Claims.** In the case of an award, compromise, or settlement of a tort claim by DOE in an amount of $2,500 or less, funds are obligated on the date of the award, compromise, or settlement (28 U.S.C. 2672) out of appropriations made available to DOE. An award, compromise, or settlement in excess of $2,500 shall be disclosed as a contingent liability but shall be paid by GAO under the Permanent Appropriation (31 U.S.C. 1304(a)), in accordance with the instructions found in Chapter 11, “Liabilities.”

(2) Contractor Claims Before the Board of Contract Appeals. If sufficient funds are not obligated under the contract, the Field Chief Financial Officer (Field CFO) obligates funds in either of the following cases:

(a) When a compromise or settlement agreement in favor of the contractor is effected while a claim is before the Board of Contract Appeals, on the date (or as soon after the date as possible) of the compromise or settlement agreement.

(b) If the board decision is adverse to DOE, on the date the decision becomes final (30 days after receipt of the decision by either party, unless either party requests board reconsideration within the 30-day period). Check with the board recorder to ascertain the status of a board decision.

(3) Claims Before the U.S. Court of Claims. Because contractors have the option of presenting their claims directly to the U.S. Court of Claims, the finance office shall obligate funds in the same manner as described in paragraph 4j(2) above.

k. Transfers.

(1) Cost of Work Performed by One DOE Office for Another. For work authorizations of $100,000 or more, field offices will use the Interoffice Work Order (IWO) System. The authorizing integrated contractor (contractor) prepares an IWO and forwards it to the authorizing field office for approval and transmittal to the performing office and contractor for required signatures. Based on the executed IWO, the authorizing field office records a decrease to its fund availability through a credit allotment and a deobligation through a modification to the authorizing contractor's contract. Concurrently, the performing field office authorizes the performing contractor to do the work and records an increase to its fund availability through a debit allotment and increases its obligational authority. Interoffice work that is below the $100,000 threshold will be reported in B&R YN 1901, Work Performed for Other DOE Locations, with the offsetting revenue reported in B&R YN 1902, Earned Revenue or Collections. (See Chapter 12, "Transfers," for further information on cash work.)

(2) Transfers of DOE-Owned Materials and Equipment. When both the cost and the payment for transfers of DOE-owned (nonexcess) materials or equipment are transferred to the receiving office, the receiving office shall record an obligation of funds upon issuance of the interoffice agreement to the performing office to avoid the possibility of violating the Anti-Deficiency Act. The transferring office shall record a deobligation upon receipt of the reimbursement. The transfer of excess materials and equipment is a nonfund transaction and does not require obligation. Detailed procedures for the Interoffice Work Order System are in Chapter 12, "Transfers."

l. Interest. DOE is not liable for interest unless it has consented to be liable for interest, either by the enactment of legislation or by contractual agreement. When DOE is liable, the Field CFO shall obligate interest for the amount that is owed during the reporting month.

m. Foreclosures. The cost of foreclosure shall be obligated when the cost is identified and authorized in accordance with a loan default or delinquent receivable settlement action.

n. Payments in Lieu of Taxes. Payments in lieu of taxes are recorded as obligations in the periods in which they are authorized to be paid and due subject to availability of funding.

5. ADJUSTMENTS TO OBLIGATIONS. To comply with the requirement that obligations be recorded in a timely manner, adjustments to increase or decrease obligations must be recorded when events or justifiable conditions occur. Program budget and accounting officials have mutual responsibility to ensure the following minimum requirements are considered or used to adjust obligations:

a. Amendments and Modifications of Agreements. When contract amendments or modifications involve changes in amounts for any reason, including corrections of estimates, required obligation adjustments shall be recorded when the changes in amounts are formalized and from funds currently available.

b. Termination of Contracts and Agreements. When a contract or agreement is terminated in whole or in part for the convenience of DOE, decrease the pertinent obligation to an amount sufficient to meet the settlement costs under the termination. Do not decrease the obligation below the amount estimated by the contracting officer on the basis of the best evidence available of the amount due as a result of such termination. The deobligation shall be supported by contract modification or formal termination agreement, except for the deobligation of small purchase and delivery orders, for which the contracting officer may use a locally approved form in lieu of a contract modification to indicate that remaining funds are not needed for further payment and should be deobligated. For the purpose of this exception, small purchase and delivery orders shall be limited to the Federal Acquisition Regulation definition of $25,000 or less.

c. Interagency Agreements. Deobligation is statutorily required for appropriations obligated under an Economy Act agreement to the extent that the performing agency has not incurred valid obligations under the agreement by the end of the period of availability.

d. Closed Fixed-Period and No-Year Appropriations. Unobligated balances of expired accounts remain available for 5 years for legitimate obligation adjustments. At the end of the 5-year period, all unliquidated obligations and all unobligated balances are canceled, and the accounts are closed. Any subsequent payment or obligation associated with a closed account shall be paid from an unexpired appropriation made for the same general purpose that is current at that time. In addition, unpaid obligations shall be canceled when the Secretary or President determines the purpose(s) within a no-year appropriation has been carried out and there is an absence of any disbursement for 2 consecutive fiscal years.

e. Special Requirements for Increasing Obligations.

(1) Adjustment(s) increasing an obligation after the expiration of the appropriation must be coordinated with the appropriate Field Element Service Center.

(2) Adjustment(s) correcting an erroneously reported prior-year deobligation must not be corrected unilaterally by the allottee. To avoid a potential deficiency violation, the allottee shall request allotment of funds from the CFO to correct the error.

f. Special Requirements for Decreasing Obligations (Deobligations). To ensure compliance with OMB Circular A-34, changes in obligations incurred in prior years must not be netted against current obligations. All evaluations and executions of deobligations within unexpired accounts should consider the following requirements:

(1) The most recently obligated funds shall be deobligated first unless otherwise identifiable. Whenever the amount deobligated is greater than the balance available for deobligation from the current fiscal year activity, the deobligation is charged to the balance available for deobligation from the preceding fiscal year. This process is repeated back through preceding fiscal years until the full amount deobligated is recorded. Obligations adjusted within the same fiscal year as they were originally obligated are again available for new obligations as if they had never been obligated in the first place.

(2) Downward adjustments of prior-year obligations that result in a net decrease at the individual contract level shall be identified in submissions to the DOE Management Analysis Reporting System (MARS) with the transaction classification code of PY, except as noted below. Funds so identified are unavailable for obligation unless reallotted.

(3) The following fund/transaction types are exempt from the requirement to request allotment, and deobligation of these funds should not be recorded or reported as a prior-year deobligation:

(a) Revolving, special, and trust funds;

(b) Power marketing administration continuing or emergency funds;

(c) Geothermal Resources Development Fund;

(d) Funds not subject to apportionment, including transfer appropriations;

(e) Reimbursable work for other Federal agencies and non-Federal entities;

(f) Transfers of work using Interoffice Work Orders (IWOs);

(g) Institutional school and hospital conservation grant program;

(h) Strategic Petroleum Reserve petroleum account (off budget);

(I) Obligations for salary, training, travel (to include permanent change of station and temporary duty), and purchase orders for less than $25,000;

(j) Adjustments to accruals;

(k) Transfer of obligations from one contractor to another associated with a change of M&O contractors at a Departmental facility and establishing replacement contracts where there is no change in the scope of work to be done;

(l) Transfer of obligations resulting from administrative actions such as replacement contracts or a change in contract administration between organizations, authorized recasting of accounting data, and other similar administrative actions;

(m) Small Business Innovation Research (SBIR) and Small Business Technology Transfer Pilot (STTR) program funds; and

(n) Federal Energy Regulatory Commission (FERC) funds.

g. Furnishing of Items by DOE to Contractors. When certain items are procured by the contractor and the estimated cost is included in the contract amount obligated and it becomes necessary or advisable for DOE to supply such items, a modification or other applicable contract action shall reflect a change in amount, and the pertinent obligation shall be reduced accordingly. Loan of equipment by DOE to a contractor may require similar action.

6. REVIEW AND REPORTING OF OBLIGATIONS.

a. Periodic Review and Validation of Unpaid Obligation Balances. Field CFOs have primary responsibility for ensuring that all known transactions meeting the criteria of 31 U.S.C. 1501 have been recorded as obligations; that the unpaid balances of these obligations are valid; and that invalid or excess balances are promptly deobligated. Consequently, Field CFOs shall regularly review unpaid balances, with emphasis on large-dollar, inactive, prior-year obligations, and should independently evaluate and confirm unpaid obligation balances.

b. Annual Certification. Field CFOs certify the accuracy of the balances contained on the annual TFS 2108, Yearend Closing Statement; specifically, they certify that all known obligations are recorded correctly and that each meets the criteria established in 31 U.S.C 1501. A fiscal year-end review must be conducted to ensure that all appropriate adjustments have been recorded as of the last day of the fiscal year. This review should include evidence of liability received during the period between the end of the fiscal year and the cutoff date established by the CFO.

c. Reporting of Uncosted Obligated Balances. Uncosted obligated balances are periodically projected, analyzed, and reported by Departmental elements in support of the budget formulation process. Specific reporting requirements are provided by the Office of Program Liaison and Financial Analysis.